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STATE OF THE STATE MESSAGE

Presented to the
Fifty-First Legislature
and to the people
of Montana

January 13, 1989

STAN STEPHENS
Governor of Montana

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STATE OF THE STATE MESSAGE
PRESENTED TO THE
FIFTY-FIRST LEGISLATURE
AND TO THE PEOPLE OF MONTANA
BY
GOVERNOR STAN STEPHENS

Friday, January 13, 1989, at 12 noon

Mr. President, Mr. Speaker, members of Montana's Centennial Legislative Session, elected state officials, fellow Montanans.

It is with a great sense of duty and responsibility that I come before you today. My term as Governor begins as Montana enters its second century. The legislative experience I have shared with many of you over the last twenty years has taught me that what we do here matters greatly to Montanans of the present and future. Your actions over the next 79 days and our administrative leadership over the next four years will shape the popular attitude and influence the environment for Montanans as we progress into our second one hundred years. It is a heavy responsibility and we are sworn to carry it for the best interests of all.

One hundred years ago this Sunday, Montana's first Governor, Joseph K. Toole, stood before the U.S. House of Representatives in Washington promoting Montana's bid for statehood. As a Congressional delegate, Toole summoned the federal government to put aside the restraints of Territorial rule and allow Montana to assume "a more important place in the future" as a state. Toole demanded CHANGE.

Like Joseph Toole 100 years ago, I and the people of Montana stand before you today petitioning for CHANGE.

We begin with a candid recognition of the illogical appearance of Montana in the global marketplace.

We enter the international economy with enviable assets and great potential. Our abundance of natural resources is well known. Our heritage is built from commerce in agriculture, minerals, timber and tourism. Our schools have produced an educated work force. And Montanans are respected for their productivity and work ethic.

Yet despite these positive appearances, national indices show Montana is perceived as a poor place to do business. Our heavy reliance on property taxes, our deficit ridden Workers' Compensation system, bureaucratic rules and regulations that impede and delay development have produced an attitude about Montana that is negative.

As we begin our Centennial year, let us retire the concepts and attitudes of the past and move forward confidently and cooperatively on winds of CHANGE.

Where do we begin?

We start by reducing personal property taxes. We do not advocate the total elimination of these taxes. There is no justification for that. But we do promote a phased-in reduction of the tax burden on essential business, industrial and agricultural equipment that serves Montanans as they compete in the marketplace.

The current personal property tax rates range from 8 to 16%. That is too high. We must bring them down to levels that are competitive with surrounding states.

We will work with the Legislature on this issue, but our proposal at this time is to, over a four or five year period, gradually bring personal property taxes down to near 4%. This reduction must be accompanied by a plan to replace the lost revenue of local governments and schools.

Turning to workers' compensation let us acknowledge the major progress achieved by the 1987 Legislative Session for which little recognition has been paid. Much was accomplished in the last session . . . completion of major reform remains to be done.

There is no more important responsibility facing Montana today that the resolution of what has become known as the "work comp" dilemma. It is a plague on the economic health of our state. If we are to economically develop, create new jobs, and be respected as a qualified competitor in the international marketplace, we must complete further workers' compensation reform. Our success will be a prime test of our ability to work together for the good of Montana . . . government, business, labor and the general public.

I will ask the legislature to join me in accomplishing the following:

Separate the obligation of the unfunded liability from the ongoing program. This will permit the reduction of premium rates to levels competitive with other states.

Retire the unfunded liability of \$157 million dollars (and growing) over a period of 4 years by asking for the financial support of both employers and employees.

A contribution from both employers and employees at the three tenths of a percent rate now assessed against employers only and DEDICATED EXCLUSIVELY toward retirement of the unfunded liability would retire that obligation in four years. At the end of that period the assessment would be terminated.

By working together and jointly accepting responsibility for rescuing an insurance fund essential to every Montana working man, woman and business, an employee would provide an average of four dollars per month in addition to what employers are already assessed by the payroll tax.

With this dedicated source of funding, we would then be in a position to transfer the obligation for the unfunded liability to the private sector through competitive bid.

We further recommend that the operation of the ongoing insurance program be administered by an appointed board of directors and an administrator qualified by training and experience in the insurance profession. Such a plan would protect benefits due injured workers. It would guarantee the integrity and solvency of the workers' compensation system assuring Montana's working men and women continued protection through a financially sound program. It would provide more affordable and competitive rates for employers which is essential to retention of jobs within the state and serves also as a positive signal to prospective employers considering doing business in Montana.

Additionally, we urge continued emphasis of mediation in lieu of litigation, where possible, in the settlement of claims. The role of the Workers' Compensation Court should be reviewed and perhaps modified but our zeal to improve the system must be tempered with the knowledge that we cannot foreclose access to judicial review.

We must not shirk from our responsibilities to address continuing reform of our workers' compensation system. It calls for breaking new ground, political discipline and, above all, cooperation. It is a MONTANA PROBLEM which threatens our future. Failure to act forthrightly in this session is a default on the faith placed in us last November by the people of Montana.

As for me, I offer to contribute 5% of my annual salary to the unfunded liability until the debt is retired.

We also need reform in the state's business permitting and licensing process. The current system has been lethargic for too long. The orderly development of our natural resources is being delayed by onerous rules and regulations that purport to be necessary protections of our environment and our people, but they are not. We will use our administrative rule making process to streamline these necessary state functions. We will insist that industry respect our quality environment but we will not impose unnecessary delays on their activities.

And we will demand a spirit of service from state agencies in their dealings with the public. Over recent years the Department of Revenue, for one, has come under considerable fire from Montanans complaining of harassment and inequitable treatment. We have chosen one of Montana's finest, Ken Nordtvedt, to direct this agency toward more tax equity and better treatment of taxpayers which are the backbone of our state.

Ken will be implementing a systematic review of the Department's rule making process to insure that the directives for tax assessment are consistent with legislative intent. There have been too many cases where the rules have wandered from the path set by lawmakers. This review will correct the deviation.

In the future, we will be proposing fundamental changes in our business and individual income tax systems . . . changes that promote a more positive treatment of human enterprise and initiative in Montana.

Additionally, we will introduce legislation that will slash unemployment insurance taxes by as much as twenty percent.

We feel these changes will provide the necessary harmony between our positive qualities and the perception those wanting to participate in the orderly development of our resources have of us.

Because the improvement of our economy will require the focused energies of all parties involved, I feel we are obligated to put a historically contentious issue to the side right now. Montana's labor and industry must work together in a spirit of mutual respect and cooperation. Now is not the time to rekindle the consuming fires ignited by such issues as "right to work" legislation. I urge those who would promote or fight such changes in Montana to forgo the debate at this time. We can and must work together to bring improvement to Montana's economy. I feel it is imperative that our energies are focused on other more important issues.

The foremost example of a consuming issue before us is the judicial demand that we create a new funding system for our public schools.

Elementary and secondary public education has been the pride of this state's commitment to our children. The strength of our schools rests with local communities, dedicated school boards and teachers who make the system work.

The constitutional question of how we are to fund K-12 education is now before the Supreme Court. In our search for a solution to school funding the requirement for "equalization" will prove to be a difficult and frustrating task. It is especially difficult when a significant segment of our economy suffers the plight of uncertainty, economic stagnation, loss of good paying jobs, depressed agriculture and natural resource industries, and where the survival of small towns is threatened. PROPERTY DOES NOT PAY TAXES. PEOPLE PAY TAXES. When people are unable to find work they cannot pay taxes.

The time has come when we must cap the amount of money school districts spend to provide a basic education. This will help us address the equity issue contained in the District Court decision while providing basic protection for the taxpaying public.

In an effort to uncomplicate an arcane system of funding, one of our legislative proposals will present a plan to equalize the funding of retirement benefits of school employees by integrating them into the foundation program.

This legislative proposal includes the elimination of county-wide property taxes for school district retirement benefits and the incorporation of those costs into the general fund budgets of the state's school districts. To replace this lost revenue, we propose a statewide 20 mill property tax levy be enacted with its revenues dedicated to the Foundation Program. Additionally, the profits of the state's lottery would go to the state school fund for equalized redistribution.

This equalization effort increases the Foundation Program schedules by about \$340 per student to pay for the district's teacher retirement benefits.

Our proposal is made revenue neutral, with respect to natural resource industries, by adjusting severance taxes for the additional retirement levies assessed on those properties. We propose adjusting those levies downward between three tenths and six tenths of a percent.

For Montana's homeowners and other school district taxpayers, the impact will vary. There will be give and take, as the term "equalization" implies. But we believe this is a responsible step that improves the public school funding system and allows local control to be maintained.

Of course, the court will speak on the letter of the law. We do not know when that will be but we will heed their message when it comes. Our intention is not to lead the court by this action, our intention is to continue the strong tradition of public school funding and quality education which this state has always valued.

And a word to school trustees and local communities. This Governor will oppose legislation that erodes local control of your schools . . . and I will VETO any attempt at mandatory consolidation.

Concerning Higher Education, we have said many times that a first rate University system is essential. The current budget for higher education must be increased to meet that goal. We need to successfully compete with peer institutions in the area of faculty salaries and we cannot ignore the essential needs of libraries and crucial support services.

At the same time we will insist that university research demonstrate its applicability to the needs of Montana and that graduates leave the campuses equipped with a quality education that meets a changing and ever more competitive world environment.

To paraphrase Churchill, "If we are to give you the tools, we expect you to do the job."

We have not had a comprehensive state water policy in Montana but we are in great need of one. I believe Montanans realize this is vital to our future. Our Administration has given such a plan top priority status. Its importance to agriculture, tourism, sportsmen and conservation interests, industry and virtually all Montanans cannot be overstated.

Governor Schwinden's Water Policy Advisory Council developed a good starting point for discussion. We agree with many of their recommendations including development of more off-stream storage in the state. But the current proposal is incomplete. It fails to involve the state's water court and federal agencies. This must be done if we are to have a comprehensive plan to protect this most precious resource.

Privatization of government services was an issue in our campaign. Over our first 12 days in office, we have been presented with a number of worthy suggestions on where the private sector could become involved to improve government services while reducing the size of our public agencies and institutions. We will be asking for legislative authority to pursue pilot programs advancing this concept where it is deemed appropriate. We will enjoy your support.

There is not sufficient time to elaborate on the many specific matters that require our attention. Permit me, therefore, a brief statement on these important issues.

Public Employee Compensation—Our public employees, including this governor, must be continually reminded that the reason there is employment in the public sector is because of the men and women who keep the private sector economy alive and productive. There are no guarantees for the women and men in the white and blue collar jobs and professions in our industry, commerce and agriculture. All employees are dependent on a healthy and prosperous economy for their job security.

We must also recognize the services performed and the contribution that is made to our economy by public employees. During the past two years our state workers have performed admirably and patiently under a pay freeze. This freeze on state employee salaries must be lifted. The increase will be modest in these pressing times but our state employees and the dedicated work they perform needs to be recognized in the budget process.

International Trade—The changes we make that will reflect favorably on Montana as a good place to do business will open up increased opportunities for international trade. We need to build upon the resources and relationships established in the Pacific Rim and develop the opportunities opened by the ratification of the U.S.-Canada Free Trade Agreement. On this latter point, we intend to enthusiastically encourage increased commerce and exchange between Montana and our three bordering Canadian Provinces.

Judicial Compensation—to our chagrin, Montana pays the lowest salaries in the nation to our elected judges. To retain, and also attract, capable men and women to the bench we can do no less than offer reasonable compensation for the responsibilities required. I trust this session will be able to demonstrate progress in this important area.

Liability Insurance—Liability tort reform must be on the legislative agenda. While I speak, small businesses are being forced into failure or bankruptcy because they cannot afford insurance. Advocates of a fail-safe society show no concern for who pays the bill. People take a fall on the ski slopes and sue the resort . . . bar customers abuse alcohol and sue the tavern . . . our doctors are forced to pay enormous insurance premiums because of the misdeeds of a few. The result is that goods and services we need for our livelihood, and sometimes our survival, become prohibitively expensive or dry up entirely. One out of eight obstetricians is already out of business. What are expectant mothers to do? Nearby obstetrical care is no longer available to many. In Montana a rural health care crisis is upon us. We must address these situations.

Tourism—We need to continue to place strong emphasis on this major industry. Revenues from the bed tax enacted in the last session should continue to be used in promotion of our tourist industry.

The Environment—Montana's quality environment will continue to be protected. Economic development with due regard for our environment can be accomplished and will be achieved.

Native Americans—As part of this traditional gathering of Montanans and their governmental triad, we have included the elected representatives of the state's eight Native American Tribes. The chairmen of the Assiniboine-Sioux, Blackfeet, Chippewa-Cree, Crow, Gros Ventre-Assiniboine, Little Shell, Northern Cheyenne, and Salish-Kootenai tribes were invited here today.

Our invitation was an expression of the unity and cooperation we desire with the Indian Nation of Montana. The economic and cultural role these people have in our state has not always been recognized. We are dedicated to work with the tribes toward a common good.

The Arts—As we deal with these matters of state, we cannot forget the importance of our artists and cultural institutions. We are celebrating our heritage in this Centennial year and I believe it is true that the most meaningful activities we employ will revolve around music, the arts and historical displays representing the first one hundred years in Montana. We must continue to enhance support for our artists, our museums and our historians to assure inspiration for the future and preservation of our heritage over the next century.

In moving forward let us be mindful that even with austere times the appetite for spending by all levels of government has not abated. You will encounter pressure to increase spending and raise taxes. Plausible arguments will be made. The clamoring voices will come from special interests, the general public, the oracles of the press, the bureaucracy, constituents . . . even your colleagues with whom you toil in the legislative chambers.

We are about to be tested.

The inclination to “Just Say No” to every question that will arise is clearly not practical nor intelligent. If we are to perform responsibly, properly fund needed and necessary services and balance the state budget as we are required to do, we must be prepared to demonstrate bi-partisan cooperation and proceed soberly and decisively.

I believe this legislature can perform in a statesmanlike manner. I pray that I can also.

The session will draw upon your courage and common sense. You will experience every emotion from exhaustion to exhilaration.

In the end, triumph over what appears to be impossible is achieved by doing what we know is right.

It is as C.S. Lewis wrote about moral law. “It is hard as nails. It tells you to do the straight thing and it does not seem to care how painful, or dangerous or difficult it is to do.”

I wish you good luck in your endeavors. Thank you.



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